

ILLINOIS COMMERCE COMMISSION

May 15, 1996

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William F. Caton Acting Secretary Federal Communications Commission Washington D.C. 20554

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Re: In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 CC. Docket No. 96-98

Dear Mr. Caton:

Enclosed pleased find for filing with the Commission an original and sixteen copies of the Initial Comments of the Illinois Commerce Commission. As indicated on the enclosed certificate of service, I have transmitted a copy of these comments on paper and diskette to Janice Myles in the Commission's Common Carrier Bureau. I have also forwarded a copy of these comments to the Commission's copy contractor.

Please acknowledge receipt of this filing by date-stamping and returning the enclosed duplicate copy of this letter in the envelope provided.

Sincerely,

Special Assistant Attorney General

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DWM/mtx Encls.

CERTIFICATE OF SERVICE

I, David W. McGann, an attorney, hereby certify that copies of the Initial Comments of the Illinois Commerce Commission in Federal Communications Commission docket Number 96-98, were served upon the persons on the attached Service List, by overnight mail, postage prepaid, on this 15th day of May, 1996. In addition, I served a computer diskette copy of the Initial Comments of the Illinois Commerce Commission in Federal Communications Commission docket Number 96-98 via overnight mail on Janice Myles of the Commission's Common Carrier Bureau.

David W. Mc Gann

SERVICE LIST FEDERAL COMMUNICATION COMMISSION DOCKET NUMBER 96-98

William F. Caton Acting Secretary Federal Communications Commission Washington D.C. 20554

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In the Matter of Implementation of)
the Local Competition Provisions)
in the Telecommunications Act) CC Docket No. 96-98
of 1996

COMMENTS OF THE ILLINOIS COMMERCE COMMISSION

Table of Contents

	<u>I</u>	?age
SUMM	MARY	i
I.	INTRODUCTION AND OVERVIEW	1
II.	PROVISIONS OF SECTION 251	3 3 18 20
	Elements	24 56
	Changes	59 63 64 65 66 72
	D. Duties Imposed on Telecommunications Carriers by	74
	Section 251(a)	80 84 84
	Interconnection Regulations	84 85
III.	PROVISIONS OF SECTION 252	87 87 91
IV.	CONCLUSIONS	92
Atta	chments	
A	IntraLATA Presubscription: April 7, 1995 Interim Order in Docket 94-0048 August 9, 1995 Second Interim Order in Docket 94-004 October 3, 1995 Order in Docket 94-0048 83 Il. Adm. Code Part 773: Presubscription	8

- B Interconnection:
 - April 7, 1995 Interim Order in Docket 94-0049 August 9, 1995 Second Interim Order in Docket 94-0049 October 3, 1995 Order in Docket 94-0049 83 Il. Adm. Code Part 790: Interconnection
- C April 7, 1995 Order in Docket 94-0096 et al., Consol. ("Customers First Order")
- D Cost of Service:
 August 17, 1994 Order in Docket 92-0211
 May 17, 1995 Order in Docket 92-0211
 July 19, 1995 Order in Docket 92-0211
 83 Il. Adm. Code Part 791: Cost of Service
- Imputation:
 July 8, 1993 Order in Docket 92-0210
 September 29, 1993 Order in Docket 92-0210
 January 12, 1994 Order in Docket 92-0210
 83 Il. Adm. Code Part 792: Imputation
- F February 7, 1996 Order in Docket 95-0201 et al., Consol.
- G Winstar Wireless of Illinois, Inc.: March 27, 1996 Order in Docket 95-0616 May 8, 1996 Amendatory Order in Docket 95-0616
- H 83 Il. Adm. Code Part 300: Guidelines for Right-of-Way Acquisitions
- I 83 Il. Adm. Code Part 305: Construction of Electric Power and Communication Lines
- J 83 Il. Adm. Code Part 315: Pole Attachment Rates' Terms and Conditions Applicable to Cable Television Companies and Electric and Telephone Public Utilities
- K 83 Il. Adm. Code Part 780: Right-of-Way Precondemnation Requirements by Telephone Companies
- L 83 Il. Adm. Code Part 785: Joint Rules of the Illinois Commerce Commission, the Office of the State Fire Marshal, and the Illinois Emergency Management Agency: Fire Protection and Emergency Services for Telecommunications Facilities
- May 6, 1996 Request for Approval filed by Ameritech Illinois requesting ICC review and approval of an agreement with Southwestern Bell Mobile Systems, Inc. d/b/a Cellular One-Chicago, Docket 96 NA-001

SUMMARY

The Illinois Commerce Commission ("ICC") fully supports the goal of the Telecommunications Act of 1996 ("the 1996 Act") to open telecommunications markets to competition. The 1996 Act's stated purpose—to provide for a pro-competitive, de-regulatory national policy for communications—is sound public policy.

As explained in these comments on the April 19, 1996 Notice of Proposed Rulemaking ("NPRM") issued by the Federal Communications Commission ("FCC"), the ICC does not concede that the FCC has authority to implement certain of the policies it has suggested in the NPRM. At the same time, the ICC recognizes that the FCC has some basis for tentatively concluding that it has authority to adopt national rules that would apply to some intrastate as well as interstate services. The ICC recognizes the wide gap among states, some of which have yet to begin the process of opening their local exchange markets to competition. Minimum standards would give a clear direction and strategy to all States. As developed in these comments, the ICC supports the adoption of national minimum rules, within the bounds of the FCC's authority, to assist the development of competition.

The rules that the FCC will adopt within the six months allowed by the 1996 Act are a major step in the transition toward a competitive market. These rules should be crafted to address the most significant barriers to entry as quickly as possible, with the goal of allowing efficient entry in all markets,

including the local exchange markets. However, the rules may need to be refined to address less signficant problems and unanticipated problems as they arise.

It is also important that the FCC and the States work closely together to implement the 1996 Act. Because the 1996 Act expressly provides for a State role and permits States to implement rules that are not inconsistent with the 1996 Act, any national rules adopted by the FCC must be identified as only minimum standards. National minimum rules can play an important role to create some consistency among the States and facilitate the development of local competition nationwide. However, national rules must permit States latitude to implement and enforce additional rules, and should include a waiver process. Minimum rules would allow continued innovation and progress in and by the States. More extensive, highly preemptive national requirements could actually inhibit competition by restricting the States' ability to respond appropriately to technological and market developments and regional differences.

The ICC agrees that sections 251 and 252 apply to both interstate and intrastate aspects of interconnection, service, and network elements and, therefore, that FCC regulations implementing those sections should apply to both interstate and intrastate aspects as well, within the scope of the FCC's authority. At the same time, State authority has been extended to both interstate and intrastate services as well.

Section 252 does not authorize incumbent local exchange carriers ("LECs") to require that existing contracts with non-incumbent LECs be renegotiated. If an existing contract is rejected by a State commission under section 252(e)(2)(A) and the non-LEC party wishes to obtain the services from the incumbent LEC, the party may commence negotiations, or choose to obtain the services through generally available offerings.

Regarding approval or rejection of negotiated or arbitrated agreements, the FCC may not, under any circumstances, preempt a State commission. Since failure to approve or reject an agreement within the time limits results in approval of the agreement, any party aggrieved by a State's failure to act within the time specified may seek their remedy only in the appropriate Federal district court. Further, Section 208 cannot be used to eliminate the remedies provided for in sections 251 and 252.

Upon receipt of a petition to mediate or arbitrate, or a Bell operating company ("BOC") Statement of Generally Available Terms, the State commission should serve upon the FCC a notice of its intent to either mediate, arbitrate, or review the Statement of Generally Available Terms, as appropriate. If a party believes that a State commission has failed to carry out its responsibilities under section 252, the party may submit a "Notice of Failure to Act" to the FCC. The State commission should be given adequate time to respond to the petition, and would have the right to participate in the resulting process at

the FCC. The FCC must take State laws into account when assuming responsibility under section 252(e)(5). Once the FCC assumes responsibility under section 252(e)(5), it does not retain jurisdiction over that matter in perpetuity.

The ICC makes a number of recommendations regarding the scope of national minimum rules, including the following:

Market-driven options should be allowed to develop through the use of bona fide requests and, for incumbent LECs, the section 252 negotiation process. These avenues would focus efforts on services for which there is genuine demand, avoid needless expenditures developing service offerings that are not utilized, and provide flexibility as markets develop.

A single set of regulations should be applied to arbitrated agreements and BOC statements of generally available terms.

In the national rules, any duties imposed on incumbent LECs in section 251(c) should not be applied automatically to non-incumbent LECs. However, the State commissions may impose additional obligations on non-incumbent LECs.

A single method of interconnection should not be required. The requesting carrier should be allowed to interconnect in a manner it deems desirable, subject to bona fide request, negotiation, and arbitration mechanisms. States should be able to adopt additional standards, which would apply to interconnection for both intrastate and interstate services.

The obligation of incumbent LECs to provide "interconnection" under section 251(c)(2) and the obligation of all LECs to establish reciprocal compensation arrangements for "transport and termination" pursuant to section 251(b)(5) should be interpreted separately.

The FCC should readopt its original rule requiring physical collocation as the interconnection standard and should modify its rule to allow collocation of any type of equipment that does not harm the network.

Any national cost and pricing guidelines should be focused narrowly on section 252(d) services, and should allow States that have already adopted similar principles to keep their rules and regulations in place.

If the FCC adopts a transitional pricing mechanism in those States or for those companies that have not already implemented pricing mechanisms consistent with the 1996 Act, the interim pricing mechanism should, to the extent practicable, be consistent with the costing principles used in permanent pricing standards. There should be a predetermined date when permanent pricing standards become effective. The use of transitional pricing standards would not necessarily preclude a finding that a BOC has satisfied the conditions under section 271; the BOC would still be required to show that all section 271 requirements have been met before interLATA entry is authorized.

Sections 251 and 252 prohibit only unreasonable or unjust discrimination, and do not necessarily prohibit a carrier from charging different rates to parties that are not similarly situated. FCC rules should recognize that cost-based price differences are not discriminatory.

Any telecommunications carrier may request to negotiate interconnection arrangements with an incumbent LEC under section 251(a). However, only carriers that provide both "telephone exchange service" and "exchange access" would be eligible for prices based on section 252(d).

Section 251(c)(2) obligations apply to at least some interconnection arrangements between incumbent LECs and commercial mobile radio service providers. Interconnection arrangements between adjacent LECs may be subject to sections 251(c)(2), depending on the type of traffic.

Imputation issues should be examined by the federal-State Joint Board. The FCC does not have authority to require that rates for local service exceed cost.

Only minimum federal rules regarding dialing parity are needed, to ensure that States act where they have not.

Issues relating to rights-of-way should be negotiated among telecommunications providers. State commissions should resolve disputes, consistent with section 252.

The ICC agrees with the FCC that the States alone have authority to make determinations under section 251(f), and sees no need for federal regulations in this area.

I. INTRODUCTION AND OVERVIEW

The Illinois Commerce Commission ("ICC") respectfully submits its comments to the Federal Communications Commission ("FCC") in the above captioned proceeding. The ICC is the state regulatory body charged with the regulation of investor-owned telecommunications carriers in Illinois and has previously commented to the FCC in matters related to the regulation of telecommunications as they affect this industry in Illinois. This matter is of interest to the ICC due to the steps it has taken to promote local competition in Illinois, beginning in the late 1980s.

On February 8, 1996, the President signed into law the Telecommunications Act of 1996 ("1996 Act"). The purpose of the 1996 Act is to provide for a pro-competitive, de-regulatory national policy for communications services. The 1996 Act requires the FCC to implement certain sections of it within six months. On April 19, 1996, the FCC issued its notice of proposed rulemaking ("NPRM") regarding local exchange competition. In its NPRM the FCC seeks comments on the local competition sections of the 1996 Act. However, it is critical for the FCC to realize

¹Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996).

that it is not alone in striving to meet Congress' directives in the short timeframes given.

with the timeline Congress laid out in the 1996 Act, there will be little chance to develop a full record on all issues. To the extent it can, the FCC should defer to those States like Illinois in which pro-competitive rules have been, or are being, implemented that will meet Congress' requirements. As discussed below, the ICC does not concede that the FCC has authority to implement some of the policies it has recommended. The ICC would support the implementation of a set of nationwide minimum rules that would act as a base on which the States may build. Still, the ICC cautions that, regardless of the restrictive schedule imposed by Congress, the FCC should not use too broad a brush and preempt states like Illinois that are addressing, or have already addressed, such issues.

The ICC comments follow the outline of issues in the NPRM. The scope of the ICC comments is limited on some issues due to pending Illinois proceedings on the same issues. The ICC plans to submit to the FCC its upcoming Order in Docket 95-0458 et al., Consol., in which requests by AT&T Communications of Illinois, Inc. and LDDS Communications, Inc., d/b/a LDDSMetromedia Communications for wholesale and network services are being examined. That proceeding is addressing many of the issues raised in the NPRM, and the ICC expects to issue an Order in time for FCC consideration during the NPRM process. The comments also cite

other pending cases in which issues overlapping with the NPRM are being addressed.

II. PROVISIONS OF SECTION 251

A. Scope of the FCC's Regulations

The FCC states in its NPRM that "we intend in this proceeding to adopt national rules that are designed to secure the full benefits of competition for consumers, with due regard to work already done by the states that is compatible with the terms and the pro-competitive intent of the 1996 Act." NPRM at para. 26. The FCC also states that "we could adopt explicit rules to address those issues that are most critical to the successful development of competition, and with respect to which significant variations would undermine competition." NPRM at para. 27.

The ICC fully supports the goal of the 1996 Act to open telecommunications markets to competition. As a general matter, the 1996 Act's stated purpose--to provide for a pro-competitive, de-regulatory national policy for communications² --is sound public policy. A broad reading can interpret the 1996 Act as a recognition by Congress of the need to overcome the market

²See Congressional Record-House, January 31, 1996, at H1078.

failures and entry barriers in telecommunications and, specifically, the local exchange market. The market failures in the local exchange market include: market power of incumbent local exchange carriers ("LECs"), bargaining power of incumbent LECs, and asymmetric information (e.g., cost information that is maintained by the incumbent LECs). Obviously, a single rulemaking will not be able to repair all barriers to entry in the local exchange market. Further, some entry barriers may be more significant than others and thus require immediate government intervention. Other barriers may be less significant and not require immediate government intervention, if any at all. order to implement a pro-competitive framework for the local exchange market, the FCC and State commissions must work together, with the FCC setting national minimum standards, within the bounds of its authority, and the State commissions building upon those standards.

There are several fundamental jurisdictional issues raised by the 1996 Act. The FCC is given broad authority to implement the 1996 Act and preempt State regulations that act as entry barriers for interstate or intrastate telecommunications service. See sections 251(d)(1) and 253(d). The FCC interprets this authority to encompass all of the interconnection, service, and network elements addressed in section 251, including those

³Unless noted otherwise, cites are to sections of the Communications Act of 1934, as added or amended by the 1996 Act.

currently considered intrastate services. At the same time, the States retain their existing authority to impose access, interconnection and other obligations, as long as the State requirements are not inconsistent with the 1996 Act and the FCC regulations implementing the 1996 Act. See sections 251(d)(3), 261(b), 261(c), and 601(c)(1) of the 1996 Act. The States are also given authority through section 252 to impose requirements on carriers consistent with section 251, including what are currently considered both interstate and intrastate services.

See sections 252(a)(2), 252(c), 252(d), 252(e), and 252(f)(2). This State authority encompasses review of negotiated agreements, the imposition of binding arbitration on unresolved issues, upon request, and review of Bell operating company ("BOC") statements of generally available terms.

The ICC wishes to comment on the jurisdictional issues addressed in paragraphs 37 through 40 and in paragraphs 117 through 120 of the NPRM. The central issue in these paragraphs is whether the FCC has the authority to adopt regulations that apply to intrastate aspects of interconnection, service, and network elements that are the subject of sections 251 and 252. The FCC has tentatively concluded that it has the authority to do so. NPRM at para. 37.

Section 2(b) of the Communications Act of 1934⁴ provides in part as follows:

Except as provided in sections 223 through 227 of this title, inclusive, and section 332 of this title, and subject to the provisions of section 301 of this title and subchapter V-A of this chapter, nothing in this chapter shall be construed to apply to or give the Commission jurisdiction with respect to (1) charges, classifications, practices, services, facilities, or regulations for or in connection with intrastate communications service by wire or radio of any carrier

When Congress amended section 332(c)(3) of the Communications Act of 1934 to limit state authority over commercial mobile service providers, it not only amended section 2(b) to except section 332 from the general rule denying jurisdiction over intrastate services to the FCC (as shown in the quote above), it also began the amendatory language in section 332(c)(3) with the phrase "[n]otwithstanding sections 152(b) and 221(b) of this title . . ."⁵

By contrast, Congress did neither when it created, as a part of the 1996 Act, new part II of title II of the Communications Act of 1934. In fact, Congress considered and discarded such an amendment to section 2(b) during the process of enacting the 1996

⁴47 U.S.C. Section 152(b), as amended by P.L. 103-66, Title VI Section 6002(b)(2)(B)(i), effective August 10, 1993.

⁵47 U.S.C. Section 332(c)(3), as amended by P.L. 103-66, Title VI, Section 6002(b)(2)(A), effective August 10, 1993.

Act.⁶ Thus, section 2(b) stands unamended, denying to the FCC the authority to apply sections 251 and 252 to intrastate services.

A number of provisions in the 1996 Act also support this conclusion. New section 251(d)(3) significantly limits the FCC's rulemaking and enforcement authority, stating that the FCC:

shall not preclude the enforcement of any regulation, order or policy of a State commission that

- (A) establishes access and interconnection obligations of local exchange carriers;
- (B) is consistent with the requirements of this section; and
- (C) does not substantially prevent implementation of the requirements of this section and the purposes of this part.

Significantly, State commission actions on these crucial subjects are not to be measured against any FCC regulations.

New section 252(d) governs pricing standards for interconnection and network element charges (section 252(d)(1)), transport and termination of traffic (section 252(d)(2)), and wholesale telecommunications services (section 252(d)(3)). Each provision expressly establishes standards under which State commissions are to determine prices, without authorizing or referring to any FCC rulemaking. Indeed, the only mention of the FCC in these provisions is in section 252(d)(2)(B)(ii), which states that section 252(d)(2) does not authorize the FCC or any

⁶See S. 652, as passed by the Senate June 15, 1995, p. 30, lines 13-17; S. 652, as amended by the House of Representatives October 12, 1995, p. 53, lines 20-22.

State commission the authority "to engage in a rate proceeding to establish with particularity the additional costs of transporting or terminating calls, or to require carriers to maintain records with respect to the additional costs of such calls."

Finally, subsections (1) and (2) of the new section 252(c), in establishing the standards that a State commission is to apply during arbitration under subsection (b), distinguishes between new section 251 and the regulations prescribed by the FCC under it, on the one hand, and the standards set forth in subsection (d), without reference to any FCC regulations, on the other. The new section 252(e)(2)(B), in establishing the grounds upon which a State commission may reject an agreement adopted by arbitration under subsection (b), makes the same distinction. It can fairly be inferred from the wording of these subsections, especially when read in light of section 2(b) and the other provisions cited above, that Congress did not intend for the FCC to exercise the broad rulemaking authority under sections 251 and 252 that the FCC has tentatively concluded it possesses.

Based upon the foregoing, the ICC expressly does not concede that the FCC has jurisdiction to adopt regulations that apply to intrastate aspects of interconnection, service, and network elements that are the subject of sections 251 and 252, as created by the 1996 Act.

At the same time, the ICC recognizes that the FCC has some basis for tentatively concluding that it may adopt national rules

that would apply to some intrastate as well as interstate services. While questioning the scope of the FCC's authority, the ICC recognizes that the application of at least some basic regulations implementing the 1996 Act on a national basis may bring some benefits to the telecommunications market. Thus, in the spirit of furthering the national debate and with the belief that the creation of national policies could benefit from the considerable experience that we have gained in Illinois in implementing State policies generally in concert with those articulated in the 1996 Act, the ICC submits the following comments regarding the NPRM.

The ICC recognizes the wide gap among states, some of which have yet to begin the process of opening their local exchange markets to competition. Minimum standards would give a clear direction and strategy to all States. As developed in these comments, the ICC supports the adoption of national minimum rules, within the bounds of the FCC's authority, to assist the development of competition in telecommunications.

The rules that the FCC will adopt within the six months allowed by the 1996 Act are a major step in the transition toward a competitive market. These rules should be crafted to address the most significant barriers to entry as quickly as possible, with the goal of allowing efficient entry in all markets,

⁷The ICC also recognizes that the FCC's view of its authority under the 1996 Act may ultimately prevail.

including the local exchange markets. However, the rules may need to be refined to address less signficant problems and unanticipated problems as they arise.

It is also important that the FCC and the States work closely together to implement the 1996 Act. Because the 1996 Act expressly provides for a State role, and permits States to implement rules that are not inconsistent with the 1996 Act, any national rules adopted by the FCC must be identified as minimum National minimum rules can play an important role to standards. create some consistency among the States and facilitate the development of local competition nationwide. These standards must permit States latitude to implement and enforce additional rules that are not inconsistent with the 1996 Act or FCC rules. See section 261(c). Minimum rules would allow continued innovation and progress in and by the States. 8 More extensive, highly preemptive national requirements could actually inhibit competition by restricting the States' ability to respond appropriately to technological and market developments and regional differences.

The State of Illinois has adopted policies that promote competition and the welfare of its citizens. 9 Rules

⁸For example, see paragraphs 100 and 200 of the NPRM.

⁹See Section 13-103 of the Illinois Public Utilities Act.
220 ILCS 13-103. The policy of the State of Illinois, effective May 14, 1992, is to permit competition to function as a substitute for certain aspects of telecommunications regulation,

implementing sections 251 and 252 should not restrict the ICC's ability to achieve its goals. As an example, the ICC created an industry task force to develop permanent number portability for implementation in Illinois. This group has held extensive meetings and worked cooperatively together to address the many technical and policy issues regarding number portability. Its consensus recommendations regarding number portability in the Chicago LATA¹⁰ have been adopted by the ICC and have served as a model that several other States have followed.

The ICC has also successfully used workshops to develop many of the details regarding intraLATA presubscription¹¹ and other issues. This ability to bring together industry, regulators, and consumer groups for informal discussions can develop consensus and yield much higher quality information and results, in many instances, than would be likely through the FCC's national, more formal procedures. The value of such forums as a way to address network issues and further the development of competition cannot be overestimated. The substantial benefits of such efforts, which are best achieved on a State level, may outweigh, in many instances, any perceived benefits or efficiencies of policies set at a national level. As the number portability experience shows,

when in the public interest.

¹⁰In Illinois, Local Access and Transport Areas ("LATAs")
are called Market Service Areas ("MSAs").

¹¹See 83 Il. Adm. Code Part 773 (attached).

a sound approach developed in one State can provide valuable guidance to other States and to national policy makers and, potentially, can become a national standard. By allowing innovation and progress at the State level, the goals of Congress will be furthered.

The ICC recognizes the critical role that minimum standards or rules can play in markets that are not effectively competitive. For example, in situations such as the local exchange market, the incumbent LEC has significant market power both in terms of price and access to customers. The market power extends to an incumbent's ability to negotiate contracts with potential competitors. The ICC, therefore, has taken steps to promulgate rules in order to establish minimum standards. 12 These minimum standards can serve as the default point in situations where carriers are unable to successfully negotiate with the incumbent LECs.

The FCC seeks comment on whether it should permit "variability" among States in regard to state-specific variations in technology, geographic, or demographic conditions. NPRM at para. 33. As discussed above, States should have the flexibility to go beyond any minimum standards set forth by the FCC. In

¹² Examples include the ICC's interconnection rule, 83 Il. Adm. Code Part 790 (attached); and mutual compensation rates for termination of local exchange traffic between Ameritech Illinois and new LECs, adopted in the April 7, 1995 Order (the "Customers First Order," attached) in Docket 94-0096, et al., Consol.

addition, known variations among state conditions may be reflected in the rules, to the extent the FCC finds appropriate. Further, the FCC should recognize that there may be some situations where it is not in the public interest to apply the FCC's minimum standards. Realistically, even with the FCC setting only minimum standards, the FCC will not be able to anticipate the full repercussions of its rules. Therefore, the ICC recommends that the FCC adopt a process whereby States may request waivers from the minimum standards, based on an affirmative demonstration of the need for a waiver. If there is no waiver provision, the FCC may have to address each such situation on reconsideration, which could be a cumbersome and time-consuming process.

Possibly more important than pre-determined and prespecified variations allowed among states, the FCC should craft
its minimum rules, wherever possible, to allow market-driven
options to develop through the use of bona fide requests and, for
incumbent LECs, the negotiation process in section 252. These
avenues would focus efforts on services for which there is
genuine demand, avoid needless expenditures developing service
offerings that are not utilized, and provide flexibility over
time as markets develop.

In paragraph 36, the FCC seeks comment on its tentative conclusion that it should adopt a single set of regulations implementing section 251, to be applied to both arbitrated

agreements and BOC statements of generally available terms. The ICC agrees with this tentative conclusion. Since the generally available terms could be viewed as a baseline against which to craft arbitrated arrangements, it is reasonable to hold both arbitrated agreements and the BOC statements of generally available terms to the same standards.

In paragraph 37, the FCC has tentatively concluded that sections 251 and 252 apply to both interstate and intrastate aspects of interconnection, service, and network elements and, therefore, that its regulations implementing those sections should apply to both interstate and intrastate aspects as well. The FCC states that "[i]t would make little sense, in terms of economics, technology, or jurisdiction, to distinguish between interstate and intrastate components for purposes of sections 251 and 252." The ICC has often applied similar reasoning on issues with parallel interstate and intrastate characteristics. For example, the ICC has required that carriers mirror FCC access charges on an intrastate basis, absent explicit ICC requirements otherwise. The ICC has also mirrored the FCC's presubscription slamming protections and switched and special access interconnection requirements. In the Customers First

¹³Exceptions include the elimination of an intrastate carrier common line charge and the elimination of recovery of non-traffic-sensitive costs through access charges.

¹⁴<u>See</u> 83 Il. Adm. Code Parts 773 and 790.